

June 4, 2003



Financial Management

Accounting for Reimbursable Work
Orders at Defense Finance and
Accounting Service Charleston
(D-2003-095)

Office of the Inspector General
of the
Department of Defense

Constitution of
the United States

A Regular Statement and Account of the Receipts and Expenditures of all public
Money shall be published from time to time.

Article I, Section 9

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 04 JUN 2003		2. REPORT TYPE N/A		3. DATES COVERED -	
4. TITLE AND SUBTITLE Financial Management: Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston (D-2003-095)				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) DoD-IG ODIG-AUD (AFTS) Secondary Reports Distribution 400 Army Navy Drive (801) Arlington, VA 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER D-2003-095	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release, distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT This report should be read by the Department of the Navy (Navy) major claimants and fund administrators served by the Defense Finance and Accounting Service (DFAS) Charleston. DFAS Charleston account managers who are responsible for managing reimbursable work orders for Navy, and DFAS Cleveland accountants who rely on the data could also benefit from the information in the report. The report discusses how to prevent and correct negative account balances, over obligations, and over expenses for reimbursable work orders.					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT UU	18. NUMBER OF PAGES 35	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Additional Copies

To obtain additional copies of this report, visit the Web site of the Inspector General of the Department of Defense at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General of the Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

ASN(FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
DFAS	Defense Finance and Accounting Service
RSC	Reimbursable Source Code
RWO	Reimbursable Work Order
STARS-FL	Standard Accounting and Reporting System-Field Level



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

June 4, 2003

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
NAVAL INSPECTOR GENERAL

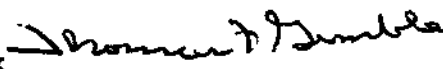
SUBJECT: Audit Report on Accounting for Reimbursable Work Orders at Defense
Finance and Accounting Service Charleston (Report No. D-2003-095)

We are providing this report for review and comment. We conducted the audit in response to the Chief Financial Officers Act of 1990, as amended. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved. In response to management comments, we revised draft Recommendations A.2.a., C.1., and C.2.; and deleted draft Recommendation B.1. The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) and the Director, Defense Finance and Accounting Service (DFAS) Cleveland comments were not fully responsive to the draft report recommendations. Therefore, we request additional comments from the ASN(FM&C) on final report Recommendation C.1.; and we request additional comments from DFAS Cleveland on final report Recommendation A.2.b. Comments are due by July 7, 2003.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Aud-clev@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the /Signed/ symbol in place of the actual signature.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Raymond D. Kidd at (703) 604-9159 (DSN 664-9159) or Ms. Linda A. Pierce at (216) 706-0074 extension 234. See Appendix C for the report distribution. The audit team members are listed inside the back cover.


David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2003-095

June 4, 2003

(Project No. D2001FC-0138.001)

Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston

Executive Summary

Who Should Read This Report and Why? This report should be read by the Department of the Navy (Navy) major claimants and fund administrators served by the Defense Finance and Accounting Service (DFAS) Charleston. DFAS Charleston account managers who are responsible for managing reimbursable work orders for Navy, and DFAS Cleveland accountants who rely on the data could also benefit from the information in the report. The report discusses how to prevent and correct negative account balances, over obligations, and over expenses for reimbursable work orders.

Background. The audit was performed in response to Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended. DFAS Charleston was established on February 23, 1995, to perform disbursing and accounting responsibilities primarily for Navy General and Working Capital Fund activities. DFAS Charleston Accounting Division performed accounting services for 469 Navy field activities under 20 of the 23 Navy major claimants using the on-line accounting system, Standard Accounting and Reporting System-Field Level.

Results. The DFAS Charleston July 31, 2001, accounts receivable balance included 706 negative balances totaling \$73.4 million. The negative \$73.4 million reduced the net balance of accounts receivable to \$85.4 million. As a result, the accounts receivable, unearned revenue, and expense balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. This ultimately impacted assets and liabilities on the Navy General Fund monthly departmental reports and year-end financial statements (finding A).

The DFAS Charleston July 31, 2001, unearned revenue balance included 315 segment-level negative balances totaling \$9 million. The negative \$9 million reduced the net balance of unearned revenue to \$3.1 million. As a result, the unearned revenue balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. The negative balances ultimately impacted liabilities on the Navy General Fund monthly departmental reports and year-end balance sheet (finding B).

Reimbursable work orders were obligated and expensed beyond the funding authorized in the reimbursable work order agreement. As a result, unauthorized and uncollectible accounts receivable balances were on the trial balances that DFAS Charleston submitted to DFAS Cleveland. This ultimately overstates assets and income on the Navy General Fund monthly departmental reports and year-end financial statements (finding C).

See Appendix A for details on the management control program as it relates to negative accounts receivable balances, negative unearned revenue balances, and over obligated and expensed reimbursable work orders.

Management Comments and Audit Response. The Assistant Secretary of the Navy, Financial Management and Comptroller (ASN[FM&C]) concurred in principle with the recommendations. The Director, DFAS Cleveland concurred or partially concurred with seven of the draft recommendations, and nonconcurred with four. In response to management comments, we revised three draft recommendations and deleted one.

We revised the draft recommendation to DFAS Cleveland to clarify the proper accounting classification of cash collections that exceed the billed and/or expensed amount for reimbursable work orders.

DFAS Cleveland nonconcurred with the draft recommendation to prevent Navy fund administrators from transferring expense amounts that exceed the expenses incurred. The DFAS comments were not responsive. DFAS is responsible for establishing controls in its systems that will help the customer, the Navy, to comply with finance and accounting requirements. We request additional comments on this issue from DFAS Cleveland.

We deleted the draft recommendation to DFAS Cleveland to establish system edit checks, and accepted the actions proposed by DFAS Cleveland to initiate a review, identify the negative unearned revenue balances, and notify Navy fund administrators of the erroneous entries.

We also revised the draft recommendation to the ASN(FM&C) to clarify that the Navy holds the ultimate responsibility to ensure that there is sufficient funding authority before creating any obligations. The fact that there are any over obligated segments is significant and indicates an internal control problem. Over obligating beyond the funding authority at any dollar amount can lead to a violation of the Antideficiency Act. We request additional comments on this issue from the ASN(FM&C).

Although DFAS Cleveland nonconcurred with the draft recommendation to establish system edit checks, DFAS Cleveland proposed to assist the Navy in developing and implementing new methodology regarding over obligations. We revised the recommendation accordingly. The proposed action was responsive to the intent of the recommendation.

Although DFAS Cleveland partially concurred with the draft recommendation to perform various reviews of account data, DFAS Cleveland proposed to provide the Navy fund administrators with a monthly list of all over obligated and expensed reimbursable work orders. The proposed action was responsive to the intent of the recommendation.

We request additional comments on the final report by July 7, 2003. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
--------------------------	---

Introduction

Background	1
Objectives	2

Findings

A. Reimbursable Work Order Segments With Negative Receivable Balances	3
B. Cash Up-Front Reimbursable Work Order Segments with Negative Unearned Revenue Balances	9
C. Over Obligated and Expensed Reimbursable Work Order Segments	11

Appendixes

A. Scope and Methodology	14
Management Control Program Review	15
Prior Coverage	15
B. Illustration of a Transfer of Expenses Between Segments	16
C. Report Distribution	18

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller)	21
Defense Finance and Accounting Service	24

Background

Chief Financial Officers Act. This audit was performed in response to Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended.

Role of Defense Finance and Accounting Service Charleston. Defense Finance and Accounting Service (DFAS) Charleston was established on February 23, 1995, to perform disbursing and accounting responsibilities primarily for Department of the Navy (Navy) General and Working Capital Fund activities. The DFAS Charleston Accounting Division performed accounting services for 469 Navy field activities organized under 20 of the 23 Navy major claimants, using an on-line accounting system known as the Standard Accounting and Reporting System-Field Level (STARS-FL). After the close of each accounting month, and at fiscal year-end, DFAS Charleston electronically transfers trial balance data to DFAS Cleveland to be used in preparing the Navy departmental reports and financial statements.

Reimbursable Work Order Agreements. Reimbursable work orders (RWO) are authorized by section 1535, title 31, United States Code (31 U.S.C. 1535) and are written agreements between Components of the Federal Government. The RWO states the requirements to perform the work or services by the recipient of the order (performer) with ultimate payment to be made by the issuer of the order (grantor). When the grantor does not have the in-house expertise to acquire or perform a required good or service (e.g. utilities, communications, or specialized technical work), it issues an RWO to an outside activity to obtain the good or service. The RWO agreement specifies the funding authorized by the grantor, work to be done, and other terms of the agreement. DFAS Charleston accounted for two types of RWO agreements: payment made in advance of the work performed (cash up-front), and payment made as the work was performed. When the RWO agreement is cash up-front, the performer financial records reflect unearned revenue for the amount received in advance. The performer earns the revenue as the RWO is satisfied. When the grantor does not pay for the RWO in advance, the performer financial records reflect an accounts receivable (receivable) for the amount incurred to perform the RWO work, and bills the grantor.

Establishing RWOs in STARS-FL. DFAS Charleston customers, who were Navy fund administrators for the Navy field activities, had more than 6,000 RWOs with outstanding receivable and unearned revenue balances accounted for in DFAS Charleston STARS-FL tables. The Navy fund administrator establishes the RWO in STARS-FL, entering the segment number (segment) and the reimbursable source code (RSC). The segment is a mandatory field in STARS-FL that the Navy fund administrator uses to identify a specific RWO. Only one segment is assigned for each RWO. The RSC identifies an RWO as cash up-front or as a receivable. In addition to establishing the RWOs in STARS-FL, the Navy fund administrator establishes and obligates the funding authority for the RWO. Other transactions related to the RWOs, including the

entering of expenses, receivables, and collections, are performed either automatically by the accounting systems or manually by DFAS Charleston accountants.

Calculating Reimbursable Balances. DFAS Charleston queried STARS-FL tables for the authorized, obligated, expensed, billed, and collected RWO amounts. Those amounts were used to calculate the outstanding receivable and unearned revenue balances. The unearned revenue balances were for each cash up-front RWO. The receivable and unearned revenue balance equations are as follows.

- $\text{Expensed amount} - \text{billed amount} = \text{balance of receivables not billed.}$
- $\text{Billed amount} - \text{collected amount} = \text{balance of receivables billed.}$
- $\text{Collected amount} - \text{expensed amount} = \text{unearned revenue balance.}$

Objectives

The overall audit objective was to determine the reliability and effectiveness of processes and procedures used by DFAS to prepare Navy General Fund financial statements. We focused on the reliability and controls over financial data processed and submitted by DFAS Charleston for financial reporting. We also reviewed the management control program as it related to the objective. Appendix A discusses the audit scope and methodology, the review of the management control program related to the audit objective, and prior coverage.

A. Reimbursable Work Order Segments With Negative Receivable Balances

The DFAS Charleston July 31, 2001, receivable balance included 706 segment-level erroneous negative balances totaling \$73.4 million. The negative \$73.4 million reduced the net balance of accounts receivable to \$85.4 million. The negative balances occurred because:

- Navy fund administrators miscoded RSCs as receivable when they should have been coded as cash up-front when the RWO was established in STARS-FL;
- Navy fund administrators inappropriately transferred expenses between RWO segments;
- DFAS entered erroneous data, such as double postings, in STARS-FL; and
- DFAS did not refund overpayments to the grantor.

The negative balances remained in some of the accounting records for years because DFAS Charleston and the Navy did not have an adequate process to correct negative receivable balances. As a result, the receivable, fund balance with treasury, unearned revenue, income, and expense balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. The negative balances ultimately impacted assets and liabilities on the Navy General Fund monthly departmental reports and year-end financial statements.

Guidance for Financial Reporting

DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6A, “Reporting Policies and Procedures,” chapter 2, “Departmental Financial Reports Roles and Responsibilities,” February 1996 (with changes through 2001), requires DFAS to review financial reports for negative balances. DFAS is required to identify deficiencies, initiate research, and when possible, coordinate with customers to correct the deficiencies.

Receivable in DFAS Charleston

The net receivable balance at DFAS Charleston as of July 31, 2001, was \$85.4 million. We queried the STARS-FL system to obtain the detail receivable balances at the segment level. The detail revealed that 706 segments had erroneous negative balances totaling \$73.4 million. We used the detail receivable listings from our queries to judgmentally select 24 RWO segments that had

negative receivable balances. We provided our selections to DFAS Charleston accounting personnel and requested all available data relating to each selected item, to include a copy of the RWO agreement, bills sent, and evidence of cash collected. The results of our review of the selected items are summarized and discussed in Table 1.

Table 1. Review of Negative Receivable Balances	
Number of Segments	Reasons for Negative Receivable Balances
2	Navy fund administrator miscoded RSC as Receivable
7	Navy fund administrator inappropriately transferred expenses between RWO segments
5	DFAS entered erroneous data in STARS-FL
7	DFAS did not refund overpayments to the grantor
3	No documentation was available because the performing activity closed
24	

RSC Coding. Two of the selected negative receivable balances occurred because the Navy fund administrator designated the RSC as a receivable instead of cash up-front. In those instances, the grantor paid the agreed-upon amount in advance before any obligations were established or expenses were incurred for the RWO. This yielded a negative receivable balance because the amount paid exceeded the billed and expensed amount. The initial cash collection would have yielded an unearned revenue normal balance if the fund administrator coded the RSC correctly as cash up-front. STARS-FL should have system controls that would account for cash collections that exceed the billed and/or expensed amount as unearned revenue when an RSC was miscoded as a receivable instead of cash up-front.

Expenses Transferred Between Segments. Seven of the selected negative receivable balances occurred because Navy fund administrators transferred expenses between segments before expenses were incurred. The Navy fund administrators' process established a single segment to track expenses for individual purchases funded by many grantors. As a result, the receivable balance was negative and remained negative until the expenses were incurred. For a more technical explanation of this complex process, see Appendix B. STARS-FL did not have system controls to prevent a Navy fund administrator from transferring expenses that had not yet been incurred. If STARS-FL had such controls, the expensed amount in the segment would not have been negative.

STARS-FL Entries. Five of the selected negative balances occurred because DFAS entered erroneous data in STARS-FL. Those errors consisted of double postings and incorrect data entry when the transaction was entered into the system. For example, DFAS Charleston posted a cash collection twice, resulting in a negative receivable balance because the collected amount exceeded the billed amount. STARS-FL did not have system controls to prevent such erroneous

entries from posting. A single cash collection could not be posted twice if STARS-FL had a system control that would not post a cash collection that exceeded the billed or expensed amount.

Refund Due the Grantor. Seven of the selected negative balances occurred because the grantor paid an excessive amount and DFAS Charleston did not refund the overpayment. In those cases, the cash collected was greater than the expensed amount. Those overpayments would not have posted if STARS-FL had system controls to prevent the collected amount from exceeding the expensed amount.

RWO Documentation. We could not determine the cause for three of the negative balances we selected because DFAS Charleston and the Navy fund administrator did not have adequate documentation to support the RWO. The documentation was not available because the performing activity was closed and the gaining activity responsible for the funding did not receive RWO documentation. When outstanding receivable balances are associated with these closed activities, the performing activity should have provided RWO documentation to both the gaining Navy activity and to DFAS Charleston. DFAS Charleston did not have operating procedures to provide the accountants access to outstanding RWO documentation from activities before they were closed.

Collection Efforts for Receivables

More than 50 percent of the outstanding balances in the detail receivable listing were from appropriations that were a minimum of 1 year old, and 13 percent were a minimum of 5 years old. DFAS Charleston had an aged receivable listing that only went back to October 1999; therefore, we were not able to quantify the aging categories before FY 2000. DFAS Charleston and the Navy did not research and correct outstanding receivable balances in a timely manner. Researching the outstanding balances would have helped DFAS Charleston collect the outstanding receivable balances and would have helped identify and correct the outstanding negative balances.

Financial Impact

DFAS Charleston provided DFAS Cleveland accounting information to create the monthly Navy departmental reports and the year-end financial statements. The accounting information included all of the negative balances. As a result, those receivable, expense, fund balance with treasury, and unearned revenue balances were not properly stated. This brings into question the validity of the data Navy managers use for decision-making purposes. Refer to Table 2 for the effect each respective cause had on the departmental reports and financial statements.

Table 2. Effect of Negative Receivable Balances	
Causes of Negative Balances	Effect on Departmental Reports and Financial Statements
RSC miscoded as receivable	Unearned revenue (liability) understated Receivable (asset) understated
Expenses inappropriately transferred between RWO segments	Receivable (asset) understated Expense understated
Erroneous entries	Receivable (asset) understated Fund Balance With Treasury (asset) overstated
Refund due the grantor	Receivable (asset) understated Fund Balance With Treasury (asset) overstated

Summary

Navy fund administrators did not effectively implement RWO accounting processes, which resulted in negative receivable balances at the segment level. Improved internal controls and operating procedures would have prevented most of the negative balances discussed in this finding. The system controls in STARS-FL did not prevent negative receivable balances. DFAS Charleston did not have operating procedures to provide its accountants access to RWO documentation from activities with outstanding balances before the activity closed. Implementing the recommendations in this finding should help improve the financial data at DFAS Charleston and ultimately improve the Navy departmental and year-end financial reports. In addition, improved system controls in the systems that process RWO transactions will help maximize the efficiency of RWO accounting and also allow DFAS accountants more time to focus on receivable collection efforts.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of discussions with management, we revised draft Recommendation A.2.a. to recognize cash collections that exceed the billed and/or expensed amount as unearned revenue.

A.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop business practices for Navy fund administrators to properly account for reimbursable work orders. The business practices should require the Navy to:

a. Provide training to Navy fund administrators on the proper use of reimbursable source codes.

b. Develop methodology and provide guidance to facilitate the proper accounting for expenses for individual purchases funded by multiple grantors.

Management Comments. The ASN(FM&C) concurred in principle stating that the Under Secretary of Defense (Comptroller) memo of July 30, 2002, established a Department of Defense accounts receivable working group to document the process, to ensure all accounts receivable are properly recorded, to standardize the accounts receivable process and to recommend changes in policy and procedures. In addition, the Navy acknowledged that DFAS is conducting a similar review of all 26 DFAS field locations. The working groups are also evaluating training. At the completion of the reviews and training evaluations, the Navy will address the guidance and training required to accurately and timely record accounts receivable.

Audit Response. The comments from the ASN(FM&C) are responsive.

A.2. We recommend that the Director, Defense Finance and Accounting Service Cleveland establish system edit checks that align with the business practices of the Navy and:

a. Post cash collections that exceed the billed and/or expensed amount for reimbursable work orders, not coded as cash up-front, as unearned revenue until the transactions are researched and can be properly posted.

b. Prevent Navy fund administrators from transferring expenses to the extent that the transfer amount would exceed the expenses incurred up to that point.

Management Comments. The Director, DFAS Cleveland nonconcurred. DFAS recognized a problem with incorrectly coded reimbursable work orders and created a system change request that is awaiting approval. The system change request would allow users to change incorrectly coded reimbursable source codes. However, DFAS stated that they did not agree with delaying the posting of cash collections that exceed the billed and/or expensed amount. DFAS proposed an alternative corrective action to post the cash collection as unearned revenue instead of as a negative receivable. DFAS also stated that transferring expenses is a Navy fund administrator practice and recommendations should be addressed to the ASN(FM&C).

Audit Response. The actions proposed by DFAS satisfy the intent of Recommendation A.2.a. The erroneous entries to accounts receivable identified in this finding create inaccurate financial data for reporting purposes. During discussions with DFAS regarding the management comments, we agreed to revise our recommendation to post the cash collections that exceed the billed and/or expensed amount as unearned revenue instead of a negative receivable. Recording a cash collection that exceeds the billed and/or expensed amount for a reimbursable work order, not coded as cash upfront, as unearned revenue allows

for timely postings of receivables. It also accounts for such erroneous entries as a double posting of a cash collection as a liability, instead of a negative receivable. DFAS must research each erroneous entry and correct the problem in order for the entry to truly be accurate.

The comments on Recommendation A.2.b. from DFAS are not responsive. We recognize that the Navy fund administrators were responsible for creating negative accounts receivable balances by transferring expenses before they had been incurred and, accordingly, addressed Recommendation A.1. to the ASN(FM&C). DFAS is responsible for establishing controls in its systems that will help the customer, the Navy, to comply with finance and accounting requirements. This is consistent with the Department of Defense Directive 5118.5, "Subject: Defense Finance and Accounting Service," as amended December 13, 1991, Paragraph 4.

4.1. The Director, Defense Finance and Accounting Service (DFAS), is the principal DoD executive for finance and accounting requirements, systems, and functions identified in DoD Directive 5118.3 and shall: ...4.1.3. Establish and enforce requirements, principles, standards, systems, procedures, and practices necessary to comply with finance and accounting statutory and regulatory requirements applicable to the Department of Defense."

DFAS is responsible for ensuring that STARS has the proper system controls to comply with finance and accounting statutory and regulatory requirements. We request that DFAS Cleveland reconsider its position on adding system edit checks that align with the business practices of the Navy (requested in Recommendation A.1.) and provide additional comments in response to the final report.

A.3. We recommend that the Director, Defense Finance and Accounting Service Charleston:

a. Review all outstanding negative accounts receivable balances at the segment level, determine the cause of those negative balances, correct the balances, and refund overpayments in a timely manner. Notify Navy fund administrators to correct the balances when applicable.

b. Perform routine reviews of the subsidiary ledger and aged accounts receivable listings to identify and correct negative balances and initiate collection actions on aged receivables. Notify Navy fund administrators to correct the balances when applicable.

c. Establish a standard operating procedure to obtain outstanding reimbursable work order documentation from a Navy field activity that is in the process of closing.

Management Comments. The Director, DFAS Cleveland concurred with the recommendation and indicated that all corrective actions were taken.

B. Cash Up-Front Reimbursable Work Order Segments with Negative Unearned Revenue Balances

The DFAS Charleston July 31, 2001, unearned revenue balance included 315 segment-level erroneous negative balances totaling \$9 million. The negative \$9 million reduced the net balance of unearned revenue to \$3.1 million. The negative balances occurred because cash collections were not entered correctly in STARS-FL. As a result, the unearned revenue balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. The negative balances ultimately impacted liabilities on the Navy General Fund monthly departmental reports and year-end balance sheet.

Unearned Revenue in DFAS Charleston

Net and Negative Balances. The unearned revenue net balance at DFAS Charleston as of July 31, 2001, was \$3.1 million. We queried the STARS-FL system to obtain the detail of unearned revenue balances at the segment level. The detail revealed that out of 840 cash up-front RWO segments, 315 segments had erroneous negative balances totaling \$9 million. Those negative balances reduced the net balance of unearned revenue to \$3.1 million.

Segments Selected for Review. We judgmentally selected four cash up-front RWO segments that had negative balances using the detail RWO reports from our queries. We provided our selections to DFAS Charleston accounting personnel and requested all available data relating to each selected item, including a copy of the RWO agreement and evidence of cash collected.

STARS-FL Entries. The negative balances occurred because DFAS Charleston posted cash collections incorrectly in STARS-FL. When cash collections were entered incorrectly for a segment, the segment did not reflect the collection. After the expenses were entered, the unearned revenue balance was negative because expenses exceeded the cash collected for that segment. DFAS Charleston did not have procedures and controls in place to identify and correct negative unearned revenue balances for cash up-front segments. If DFAS Charleston had such controls, the negative balances could have been corrected in a timely manner.

Financial Impact

As a result of the improper accounting practices, the unearned revenue balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. The negative balances ultimately impacted liabilities on the

Navy General Fund monthly departmental reports and year-end balance sheet. This brings into question the validity of the Navy data used for decision-making purposes.

Summary

Improved procedures and controls would have helped DFAS Charleston identify and correct the negative balances discussed in this finding and would have improved the financial data at DFAS Charleston and ultimately on the Navy General Fund financial statements.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments and additional audit work, we deleted draft Recommendation B.1. DFAS Charleston claimed the responsibility to identify, research, and correct negative unearned revenue balances during a meeting after the draft report was issued. Draft Recommendations B.2.a. and B.2.b. have been renumbered as Recommendations B.1. and B.2., respectively.

B. We recommend that the Director, Defense Finance and Accounting Service Charleston:

1. Initiate a review of all outstanding negative unearned revenue segments. Determine the cause of those negative balances and correct the balances. Notify Navy fund administrators to correct the balances when applicable.

2. Perform routine reviews of the unearned revenue detail reports to identify and correct negative balances. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. The Director, DFAS Cleveland, partially concurred with the recommendations, stating that DFAS would initiate a review, identify the negative unearned revenue balances, and notify Navy fund administrators of the erroneous posting. DFAS wants the fund administrator to initiate corrective actions. DFAS also agreed to conduct reviews on a monthly basis. DFAS stated that Navy fund administrators have the ultimate responsibility to ensure cash collections are deposited into the correct segments.

Audit Response. The actions proposed by DFAS satisfied the intent of the recommendations.

C. Over Obligated and Expensed Reimbursable Work Order Segments

RWOs were obligated and expensed beyond the funding authorized in the agreement. The over obligation occurred because there were no controls to prevent obligated and expensed amounts from exceeding funded authority in STARS-FL. As a result, DFAS Charleston submitted receivable balances that were not authorized or collectible to DFAS Cleveland. This ultimately overstated assets and income on the Navy General Fund monthly departmental reports and year-end financial statements.

Obligations and Expenses versus Funded Authority

We judgmentally selected six RWO segments that had obligated and expensed amounts greater than the funded authority amount at the segment level, using the detail receivable lists from our queries. We found that STARS-FL did not have system controls to prevent an obligation and expense from exceeding the funded authority at the segment level. Improved internal controls would alert supervisors when an obligation or expense exceeds the funding authority. Improved internal controls would also require the fund administrator to obtain more funding authority from the grantor or absorb the unfunded expense in the performer's operating budget.

Guidance for Obligating and Expensing Funds

The Antideficiency Act (the Act) was codified in a number of sections of the United States Code. Section 1341(a), title 31, United States Code, (10 U.S.C. 1341(a)) forbids any employee of the United States Government from obligating or expending funds that exceed the funding authorized in the appropriation. The over obligations and expenses discussed in this finding are not a direct violation of the Act because they are at the segment level, a much lower level than the appropriation level. However, over obligations and expenses at the segment level can lead to a violation of the Act when the combined total for segments in a particular appropriation exceed the funded authority. The recommendations in this finding will minimize Navy fund administrators from over obligating at the segment level and alert Navy management when over obligations occur.

Financial Impact

RWO expenses were incurred that were not authorized. The segments had an outstanding receivable balance that had no funding authority from the grantor. Because the grantor did not provide funding authority for the additional expenses,

the receivable balance was not collectible. Those uncollectible receivable balances were included on the Navy General Fund financial statements, ultimately causing an overstatement to the receivable asset and corresponding income balances. This brings into question the validity of the data Navy managers use for decision-making purposes.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised Recommendations C.1. and C.2. to clarify our position that the Navy holds the ultimate responsibility for ensuring that there is sufficient funding authority before creating any obligations.

C.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop a methodology and provide guidance to prevent Navy fund administrators from over obligating at the segment level. Request system edit checks that will alert the next level supervisor when an obligation or expense exceeds the funding authority of the reimbursable work order segment.

Management Comments. The ASN(FM&C) concurred in principle with the recommendation. The Navy commented that we did not provide the total universe of over obligated and expensed reimbursable work order segments by numeric quantity and dollar value. Moreover, they acknowledged their working group review of accounts receivable would also identify these kinds of issues. Once the review is completed, they will be better equipped to address negative accounts receivable balances.

Audit Response. The comments from the ASN(FM&C) are not responsive. The Navy comment that we did not provide the total universe of over obligated and expensed reimbursable work order segments does not excuse them from responding to the problem identified in finding C. The fact that any over obligated segments exist is significant, and indicates an internal control problem that the Navy needs to research and correct. Over obligating beyond the funding authority at any dollar amount can lead to a violation of the Antideficiency Act.

In addition, the over obligated segments identified in finding C do not yield negative account receivable balances, they yield normal debit balances that are not collectible because there is no funding authority. The accounts receivable review mentioned by the ASN(FM&C) will address negative accounts receivable balances but will not address over obligating at the segment level. Therefore, the Navy must perform a separate, more focused review of over obligated segments to correct the problem. We request that the ASN(FM&C) provide comments on the final report.

C.2. We recommend that the Director, Defense Finance and Accounting Service Cleveland coordinate with the Navy to establish system edit checks in line with the updated Navy methodology and guidance regarding over obligating and expensing at the segment level.

Management Comments. The Director, DFAS Cleveland nonconcurred with the recommendation, stating that DFAS would assist the Navy in the development and implementation of any new methodology that the Navy deemed necessary regarding over obligations. However, DFAS stated that the ultimate responsibility resides with the Navy to guarantee that obligations and expenses do not exceed the funding authority.

Audit Response. The actions proposed by DFAS are responsive to the intent of the recommendation.

C.3. We recommend that the Director, Defense Finance and Accounting Service Charleston:

a. Initiate a review of all over obligated and expensed segments to determine the cause and correct the balances. Notify Navy fund administrators to correct the balances when applicable.

b. Perform routine reviews of the detail accounts receivable lists to identify and correct over obligated and expensed reimbursable work order segments. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. The Director, DFAS Cleveland, partially concurred with the recommendations. DFAS Charleston will create a query in STARS to provide the Navy fund administrators with a monthly listing of all over obligated and expensed reimbursable work orders. Navy fund administrators are responsible for reviewing and correcting the errors. When any uncorrected over obligated and expensed reimbursable work order balance is more than 30 days old, DFAS will provide a formal letter to the Navy fund administrator and the major claimant notifying them that corrective action needs to be taken.

Audit Response. The actions proposed by DFAS are responsive to the intent of the recommendations.

Appendix A. Scope and Methodology

The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, we performed the audit at field accounting site DFAS Charleston, which included interviews with fund administrators at Navy activities for further explanations.

We reviewed the processes and procedures of the STARS-FL accounting system for reimbursable work orders at DFAS Charleston. We queried the STARS-FL database at the summary level for all RWOs to obtain the trial balance data that are submitted to DFAS Cleveland. In addition, we queried STARS-FL for the detail lists of each RWO for which DFAS Charleston had prepared monthly trial balances. As of July 31, 2001, there were 5,401 RWO segments with a receivable balance of \$85.4 million, to include 706 negative segment balances totaling \$73.4 million. The unearned revenue balance that resulted from the 840 reimbursable cash up-front segments included 315 segment-level erroneous negative balances totaling \$9 million. The negative \$9 million reduced the net balance of unearned revenue to \$3.1 million. We judgmentally selected 34 RWOs to review. The review consisted of 24 negative receivable segments, 6 over obligated receivable segments, and 4 cash up-front segments.

We performed this audit from June 2001 through November 2002, in accordance with generally accepted government auditing standards. We included tests of management controls considered necessary. We suspended the audit from November 2002 to May 2003 because of higher priority work. Some management comments on the draft report were not responsive so we request additional comments from management. Other management comments indicated completion dates that have passed so we will confirm that actions have been completed as part of the follow-up process. We revised recommendations in this report based on management comments on the draft report and discussions with management.

Use of Computer-Processed Data. We relied on computer-processed data in STARS-FL to identify the RWO summary and detail receivable and cash up-front data. Although we did not perform a reliability assessment of the computer-processed data, we did not find errors that would preclude the use of the computer-processed data to meet the audit objectives, or that would change the conclusions in this report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We evaluated management controls over the DFAS Charleston processes and procedures for preparing monthly trial balances to be interfaced with DFAS Cleveland for departmental reporting. Specifically, we reviewed DFAS Charleston management controls over maintaining reimbursable work orders in the STARS-FL accounting system to include necessary system edit checks and accuracy of preparing monthly reimbursable trial balances at the field level. Management did not perform any self-evaluations applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses at DFAS Charleston, as defined by DoD Instruction 5010.40. STARS-FL did not have adequate controls at the segment level to prevent negative receivable trial balances, negative unearned revenue trial balances, and over obligations. Recommendations A.1.a, A.1.b, A.2.a, A.2.b, C.1., and C.2., if implemented, will prevent negative receivable balances; negative unearned income balances, and over obligations of RWO segments from occurring in STARS-FL. Recommendations A.3.a, A.3.b, B.1, B.2, C.3.a, and C.3.b, if implemented, will correct existing negative receivable balances, negative unearned income balances, and over obligations of RWO segments in STARS-FL. A copy of the report will be provided to the senior official responsible for management controls at DFAS Cleveland, DFAS Charleston, and the Navy.

Adequacy of Management's Self-Evaluation. Management at DFAS Charleston did identify STARS-FL as an assessable unit but did not perform an evaluation. Management did not complete the schedule in the management control plan.

Prior Coverage

The General Accounting Office, the Office of the Inspector General of the Department of Defense (IG DoD), and the Naval Audit Service have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. IG DoD reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. Naval Audit Service reports can be accessed on the Internet at <http://www.hq.navy.mil/navalaudit>.

Appendix B. Illustration of a Transfer of Expenses Between Segments

This appendix provides an illustration of the transfer of expenses between segments, which caused negative receivables as discussed in finding A. The process used by Navy fund administrators was to establish a single segment to track expenses for individual purchases funded by many grantors. In this illustration, a Navy fund administrator purchased telephone service for 100 grantors, each with their own RWO. The RSC identified each RWO as a receivable. The Navy fund administrator established one additional unfunded segment to capture the expenses for the purchase of the telephone service. Some of the grantors paid for the telephone service in advance, but because the expenses were not yet incurred, the grantor segments reflected a negative receivable balance, rather than unearned revenue. To eliminate the negative receivable balances, the Navy fund administrator transferred the expenses from the unfunded segment to the grantor RWO segments. The following three steps illustrate the accounting entries made by DFAS Charleston and the Navy fund administrator for two of the grantors that paid in advance, and the effect those entries had on the receivable balance of each segment. The steps correlate to the numbers in Table 3.

1. **Grantors Paid in Advance.** During the month, one grantor paid \$100 and another grantor paid \$200 for telephone services. DFAS Charleston received the payments for the performer and entered the cash collection in STARS-FL. The cash collections posted to the grantor segments in STARS-FL. As indicated in Table 3, the receivable balances from “Grantor One” and “Grantor Two” are negative \$100 and \$200 respectively. The receivable balances were negative because DFAS Charleston had not received the bill from the telephone service provider; therefore, no expenses were posted to either of the grantor segments.
2. **Navy Fund Administrator Transferred Expenses.** At the end of the month, the Navy fund administrator queried STARS-FL to determine which grantors paid during the month. In this example, the Navy fund administrator determined that two grantors had paid during the month. The Navy fund administrator transferred expenses totaling \$300 from the unfunded segment, \$100 to grantor one and \$200 to grantor two, because the grantor payments caused a negative receivable balance in their respective segments. As indicated in Table 3, the transferred expenses caused grantor one and grantor two segments to have a zero receivable balance. The transferred expenses also caused the unfunded segment expensed amount to be negative \$300, because the expenses had not yet been incurred.
3. **Expenses Were Incurred.** The telephone service provider sent DFAS Charleston the monthly telephone bill of \$200 for telephone service related to the 100 grantors. DFAS Charleston entered the bill in STARS-FL to the unfunded segment. At this point, the telephone expenses for the month were incurred. As indicated in Table 3, the \$200 bill netted against

the existing negative \$300 expense balance resulted in negative \$100 expensed and receivable balances. This transaction did not affect grantor one or grantor two segments.

Table 3. Transfer of Expenses Between Segments									
	Unfunded Segment			Grantor One Segment			Grantor Two Segment		
	Expensed	Collected	Receivable	Expensed	Collected	Receivable	Expensed	Collected	Receivable
1	-	-	-	-	100	(100)	0	200	(200)
2	(300)	-	-	100	-	-	200	-	-
	(300)	-	(300)	100	100	-	200	200	-
3	200	-	-	-	-	-	-	-	-
	(100)	-	(100)	100	100	-	200	200	-

The process described above resulted in a negative receivable balance for the unfunded segment when the grantors paid in advance.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/ Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee
on Government Reform
House Subcommittee on National Security, Emerging Threats, and International
Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations,
and the Census, Committee on Government Reform

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

AUG 30 2002

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DODIG DRAFT AUDIT REPORT "ACCOUNTING FOR REIMBURSABLE
WORK ORDERS AT DEFENSE FINANCE AND ACCOUNTING SERVICE
CHARLESTON" PROJECT NO. D2001FC-0138.001 OF 14 JUNE 2002

Ref: (a) DoDIG memo of 14 Jun 02

Encl: (1) Department of the Navy Comments

By reference (a), you requested comments regarding the
subject audit. Enclosure (1) provides the Department of the
Navy response.

My point of contact for this action is Mr. Gilbert
Gardner, who may be reached at (202) 685-6727 or by email at
Gardner.Gilbert@fmo.navy.mil.

A handwritten signature in cursive script, reading "Gladys J. Commons".

GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)

Copy to:
DFAS Cleveland
DFAS Charleston

Department of the Navy
Response to
DODIG DRAFT AUDIT REPORT
"ACCOUNTING FOR REIMBURSABLE WORK ORDERS AT DEFENSE FINANCE AND
ACCOUNTING SERVICE CHARLESTON"
Project No. D2001FC-0138.001 of 14 Jun 01

Recommendations

A.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop business practices for Navy fund administrators to properly account for reimbursable work orders. The business practices should require the Navy to:

- a. Provide training to Navy fund administrators on the proper use of reimbursable source codes.**
- b. Develop methodology and provide guidance to facilitate the proper accounting for expenses for individual purchases funded by multiple grantors.**

Response: Concur in Principle. By Under Secretary of Defense (Comptroller) memo of 30 July 2002, a Department of Defense (DoD) Accounts Receivable (A/R) working group was established. Goals of the A/R effort are to: (1) document the process; (2) ensure all A/R are properly recorded; (3) standardize the A/R process; and (4) recommend policy and procedural changes. At the same time, the Defense Finance and Accounting Service's Director of Accounting Services has formed a team to perform a detailed field level review at all 26 Defense Finance and Accounting Service field locations. The purpose of the field level review is to determine the adequacy of their standard operating procedures, interaction with their DON fund administrator and assignment of accountability and responsibilities. Training requirements will also be assessed. Once the results of the DoD working group and the 26 DFAS field locations are complete, we will be in a position to address guidance and training that is needed to clarify proper accounting for expenses vice establishing an A/R.

Enclosure (1)

C.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), develop a methodology and provide guidance to prevent Navy fund administrators from overobligating at the segment level.

Response: Concur in Principle.

We are unable to determine from the draft audit report the scope, magnitude or materiality of the problem raised in the draft audit dealing with overobligated and expensed reimbursable work order segments. The report does not give any specifics as to how many instances where this condition existed or the total dollar amount. The report simply states that six reimbursable work order segments were judgementally selected. In order for us to formulate an appropriate response and issue guidance we would need to know the total universe of overobligated and expensed reimbursable work order segments (both number and dollar value) and which activities incurred these problems. We're not sure if this problem is due to one activities poor record keeping or a problem that impacts many activities. We don't know if the total problem is \$500 or \$5 million. If you have additional information dealing with overobligated and expensed reimbursable work order segments we would like to review it to help us better understand their causes.

In any case, we are committed to improving the accuracy of our financial statements, to include the accounts receivable entries. As discussed in our response to recommendation A.1. we are currently reviewing this entire issue and once completed we will be in a better position to address the causes of all negative accounts receivables.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
CLEVELAND CENTER
1240 EAST NINTH STREET
CLEVELAND, OH 44199-2055




AUG 26 2002

DFAS-CL/AJI

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE ,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE
(ATTN: MR. RAYMOND D. KIDD)

SUBJECT: Audit Report on Accounting for Reimbursable Work Orders at Defense
Finance and Accounting Service Charleston (Report No. D2001FC-0138.001),
June 14, 2002.

The Defense Finance and Accounting Service response to subject draft audit is attached.
The points of contact are Ms. Sharon Ricci at commercial (216) 204-7002 or Mr. Stanley Koch at
commercial (216) 204-7066.


Kenneth R. Sweitzer
Acting Director

Attachment:
As stated

cc:
DFAS-DDI/AR
DFAS-DAS/AR

**DFAS Comments to DoDIG Draft Report, "Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston,"
Project No. D2001FC-0138.001, dated June 14, 2002**

Recommendation A.2. We recommend that the Director, Defense Finance and Accounting Service Cleveland establish system edit checks that align with the business practices of the Navy and:

a. Do not post cash collections that exceed the billed and/or collected amount for reimbursable work orders not coded as cash up-front until the transactions are researched and can be properly posted.

Revised
Page 7

Management Comments. Nonconcur with Recommendation A.2.a. We do not agree that cash collections should be delayed from being posted. The Department of Defense Financial Management Regulation (DoDFMR) Volume 4, Chapter 3, Section 030206 states that, "Accounting for receivables shall include provisions for the accurate and timely recording of collections and liquidation of associated receivables." Therefore, as an alternative, we propose that these types of cash collections should be recorded as a liability in General Ledger (GL) account 2310.0200 – (Unearned Revenue - Advances from the Public) as opposed to a negative receivable. This is supported in DoDFMR Volume 4, Chapter 12 – Unearned Revenue and Other Liabilities.

Revised
Page 4

DFAS does recognize problems related to reimbursable work orders that are incorrectly coded, and has created a system change request (SCR) DN 7306-02038, *Correction of Reimbursable Source Codes (RSC)*, which has been sent to the Joint Requirements Board for review. This SCR, if approved, would allow the Navy Fund Administrator to correct the RSC and then correctly re-post collections by reimbursable segment.

These actions collectively should greatly reduce abnormal accounts receivable balances while adhering to the policy of posting all collections timely.

b. Prevent Navy fund administrators from transferring expenses to the extent that the transfer amount would exceed the expenses incurred up to that point.

Management Comment. Nonconcur with Recommendation A.2.b. The transferring of expenses which are creating negative accounts receivable balances is a Navy Fund Administrator (FA) practice. Therefore, this recommendation should be addressed to the Assistant Secretary of the Navy, Financial Management & Comptroller (FMO) to make a determination on whether to implement a change in their Navy FA practices.

Recommendation A.3. We recommend that the Director, Defense Finance and Accounting Service Charleston:

a. Review all outstanding negative accounts receivable balances at the segment level, determine the cause of those negative balances, correct the balances, and refund overpayments in a timely manner. Notify Navy fund administrators to correct the balances when applicable.

**DFAS Comments to DoDIG Draft Report, "Accounting for Reimbursable Work
Orders at Defense Finance and Accounting Service Charleston,"
Project No. D2001FC-0138.001, dated June 14, 2002**

Management Comments. Concur. DFAS Charleston will review all outstanding negative accounts receivable balances at the segment level, determine the cause of the negative balance, or contact the funds administrator via memorandum to take action.

Estimated Completion Date. February 28, 2003.

b. Perform routine reviews of the subsidiary ledger and aged accounts receivable listings to identify and correct negative balances and initiate collection actions on aged receivables. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. Concur. DFAS Charleston has developed a query to provide a monthly listing of all negative receivable balances at the segment level. The Standard Accounting and Reporting System-Field Level (STARS-FL) Account Manager distributes the listing to the appropriate accountant for action to clear each month, or provide written explanation of why action was not taken.

Completion Date. October 15, 2002.

c. Establish a standard operating procedure to obtain outstanding reimbursable work order documentation from a Navy field activity that is in the process of closing.

Management Comments. Concur. Upon notification by the closing activity, DFAS Charleston will contact the Major Claimant of the closing activity via a formal letter to ensure all documentation, including reimbursable work orders, is procured from the closing activity. DFAS Charleston will provide the Claimant with listings documenting the financial position of the closing activity to ensure proper documentation is procured. DFAS Charleston will also request a POC from the Major Claimant at the closing activities. This position will be briefed to the Major Claimants at the next conference scheduled for September 10-11, 2002 in Norfolk, Virginia. The Standard Operating Procedure will be developed and implemented.

Expected Completion Date. October 31, 2002.

Recommendation B.1. We recommend that the Director, Defense Finance and Accounting Service Cleveland establish system edit checks that will not post an obligation or expense that exceeds the cash collected amount for cash up-front reimbursable work orders until the transaction is researched and can be properly posted.

Management Comments. Nonconcur. We do not agree with Recommendation B.1. that obligations should be delayed from being posted. DoDFMR Volume 3, Chapter 11, Section 110401.D. states "Should a new obligation or obligation adjustment be incurred in an account that has been obligated fully as a result of unresolved, overaged UMDs or NULOs, such an obligation shall be recorded even though it will result in recorded obligations in excess of

**DFAS Comments to DoDIG Draft Report, "Accounting for Reimbursable Work
Orders at Defense Finance and Accounting Service Charleston,"
Project No. D2001FC-0138.001, dated June 14, 2002**

available resources." In addition, the following Section 110401.E. states, "No guidance in this chapter should be construed as authorizing a delay in (1) the recording of an executed obligation that would result in an overobligation." Therefore, based on these DoDFMR cites, all obligations must be timely posted without delay regardless of consequence. As a result, additional edit checks are not appropriate or relevant.

Recommendation B.2. We recommend that the Director, Defense Finance and Accounting Service Charleston:

a. Initiate a review of all outstanding negative unearned revenue segments. Determine the cause of those negative balances and correct the balances. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. Partially Concur. Navy Fund Administrators have the ultimate responsibility to ensure cash collections are deposited into the correct accounts. DFAS Charleston will review the unearned revenue accounts, identify the outstanding negative unearned revenue segments and notify Navy of the abnormal conditions. It is the Navy's responsibility to review the identified abnormal conditions and initiate corrective action.

Completion Date. February 15, 2003.

b. Perform routine reviews of the unearned revenue detail reports to identify and correct negative balances. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. Partially Concur. DFAS Charleston has developed a query to provide a monthly listing of all negative unearned revenue accounts at the segment level. The listing will be forwarded to the Navy Fund Administrator for corrective action. (See Management Comments under recommendation B.2.a.)

Completion Date. October 15, 2002.

Recommendation C.2. We recommend that the Director, Defense Finance and Accounting Service Cleveland establish system edit checks that will alert the next level supervisor when an obligation or expense exceeds the funding authority of the reimbursable work order segment. The transaction would have to be approved by the supervisor before it posts to the accounting system.

Management Comments. Nonconcur. The Assistant Secretary of the Navy, Financial Management and Comptroller should determine if a new methodology is needed regarding over-obligating at the segment level. If a new methodology is determined to be needed, DFAS Cleveland will assist the Navy in its development and implementation.

Renumbered
as Recom-
mendation
B.1.

Revised
Page 9

Renumbered
as Recom-
mendation
B.2.

Revised
Page 13

**DFAS Comments to DoDIG Draft Report, "Accounting for Reimbursable Work
Orders at Defense Finance and Accounting Service Charleston,"
Project No. D2001FC-0138.001, dated June 14, 2002**

DoDFMR Volume 3, Chapter 8, Section 080401 states, "Fund Holders, with assistance from supporting accounting offices, shall review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the four month periods ending January 31, May 31, and September 30 of each fiscal year. This requirement applies not only to direct appropriations, but also to all reimbursable transactions." Therefore, a procedure of Triannual reviews is already in place to resolve outstanding commitments and unliquidated obligations.

Recommendation C.3. We recommend that the Director, Defense Finance and Accounting Service Charleston:

a. Initiate a review of all overobligated and expensed segments to determine the cause and correct the balances. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. Partially Concur. The Navy holds the ultimate responsibility for ensuring obligations/expenses do not exceed authorized amounts. DFAS Charleston will provide a listing to the Navy Funds Administrator identifying all overobligated/overexpensed segments. The Navy Fund Administrator is responsible for reviewing the listing and taking corrective action. If not corrected within the month, a formal letter will be drafted to the Funds Administrator with a copy to the Claimant requesting action be taken to correct the situation.

Estimated Completion Date. February 15, 2003.

b. Perform routine reviews of the detail accounts receivable listings to identify and correct overobligated and expensed reimbursable work order segments. Notify Navy fund administrators to correct the balances when applicable.

Management Comments. Partially Concur. DFAS Charleston will provide a monthly listing to identify all overobligated/overexpensed segments. The listing will be forwarded to the Navy Funds Administrator for correction. If not corrected within the month, a formal letter will be drafted to the Funds Administrator with a copy to the Claimant requesting action be taken to correct the situation. (See Management Comments under Recommendation C.3.a)

Estimated Completion Date. October 15, 2002.

Team Members

The Defense Financial Auditing Service Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto
Richard B. Bird
Raymond D. Kidd
Linda A. Pierce
David J. Ramseyer